

Overview of Governor Locke's 2002 Supplemental Operating and Capital Budget Proposals

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Major Features of Governor Locke's Proposed 2002 Supplemental Operating Budget

OVERVIEW

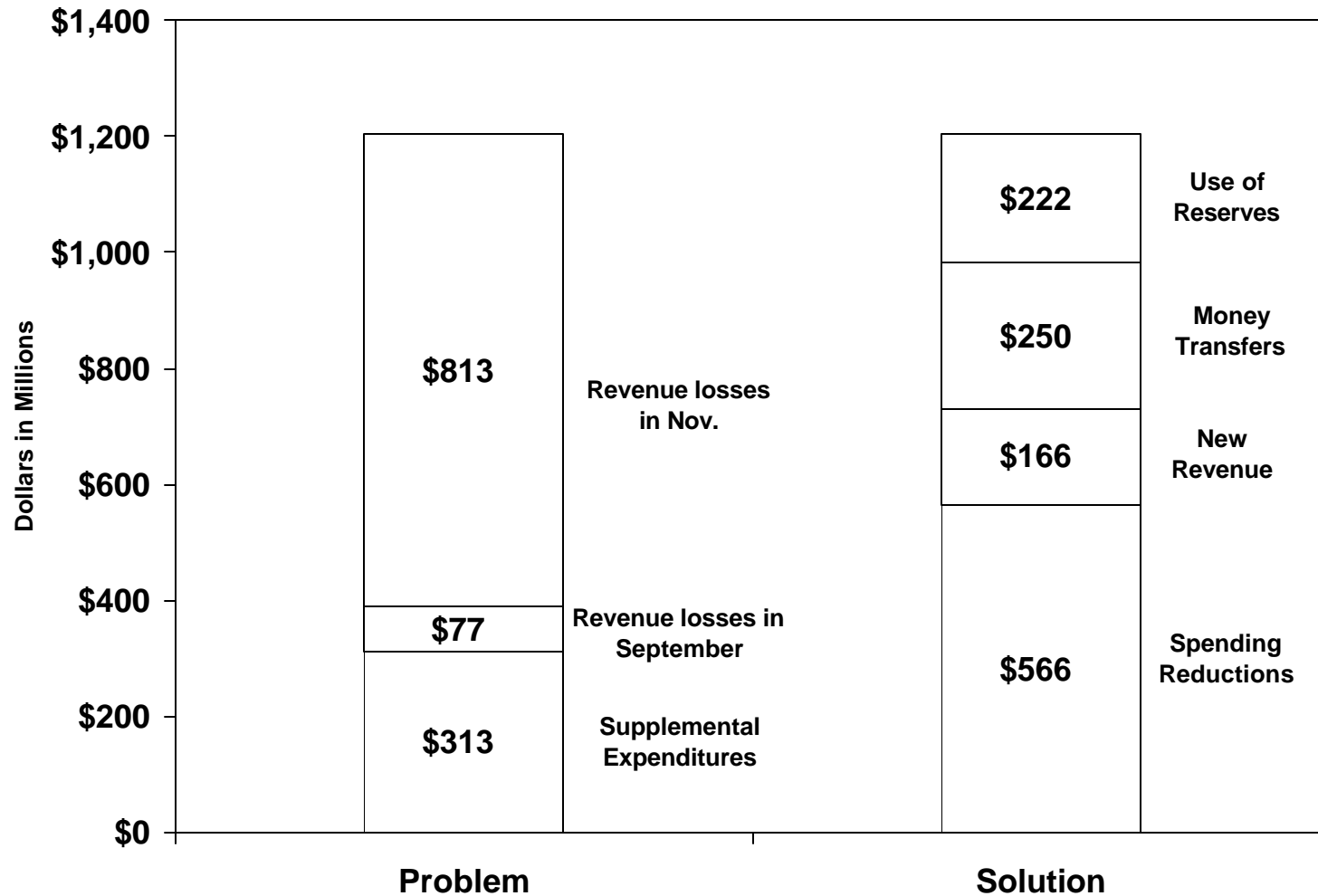
The 2001-03 general fund budget has a total gap between projected revenues and expenditures of just under \$1.9 Billion. Of this amount, \$1.2 Billion has occurred since June due to lower revenues (\$891 million) and higher supplemental expenditures (\$313 million). The existing \$665 million deficit was covered in the original 2001-03 biennial budget through a combination of reserves and money transfers.

The Governor's 2002 Supplemental Budget proposes to close the new \$1.2 Billion gap with:

- New budget reductions of \$566 million
- New revenue increases of \$166 million
- Additional money transfers of \$250 million (\$228 million in the original budget)
- \$222 million more from reserves (\$437 million in the original budget)

In addition, the \$100 million deficit in the transportation budget (\$70 million in the Multi-Modal Account and \$30 million in ferry operations), created when the LEOFF bill did not pass the 2001 Legislature, is remedied in the Governor's budget with a new transportation revenue proposal.

The Governor's Proposed 2002 Supplemental Budget



Budget Reductions -- \$566 Million Savings

Human Services -- \$235 Million Savings

DSHS Medical Assistance

- Medicaid payments to pharmacies are reduced by approximately 15 percent, for a savings of \$71 million (\$35.4 million GF-State).
- Funding for interpreter services is eliminated requiring Medicaid providers to furnish the service within their basic rate, for a savings of \$10 million (\$5.0 million GF-State).

DSHS Economic Services

- Eliminating state supplemental payments to SSI recipients saves \$31 million GF-State. These supplemental payments are less than \$25 per month per person in the Puget Sound region and less than \$7 per month in other areas of the state. Federal approval of this change is uncertain.

DSHS Long Term Care

- Reduce nursing home payment rates by approximately 11 percent, for a savings of \$69 million (\$34.7 million GF-State).
- Increase licensing fees for nursing homes by approximately \$9,000 per home per year, and for adult family homes by approximately \$1,500 per home per year, saving \$9 million GF-State.
- Reduce Medicaid payment rates to assisted living facilities by approximately 7 percent, for a savings of \$2.6 million (\$1.3 million GF-State).

DSHS Mental Health

- Reduce payments to mental health Regional Support Networks by 3 percent, for a savings of \$9.3 million (\$4.6 million GF-State).
- Close 60 additional beds at Western State Hospital. Unlike last year's proposal to close hospital beds, no new community funding to serve patients returned to the community is provided, for an anticipated cost reduction of \$2 million (\$1.1 million GF-State).
- Reimbursement to local governments for the costs associated with the civil commitment of sexually violent predators is eliminated, a reduction of \$4.3 million GF-State.
- A total of \$2 million in funding for local government mitigation associated with the placement of a Secure Community Transition Facility on McNeil Island is eliminated.

DSHS Children and Family Services

- Eliminating 66 secure residences for adolescents saves \$4.7 million GF-State. These beds were mandated by the BECCA legislation.
- Reducing Medicaid Treatment Child Care results in a reduction of \$6.7 million and other programs designed to prevent child abuse and placement of children in foster care.
- The family policy council and community health and safety networks are eliminated saving \$3.4 million in total funds and \$1.3 million GF-State.

DSHS Juvenile Rehabilitation

- The Governor proposes legislation to eliminate the truancy requirements of the "Becca" bill and therefore saves \$3.4 million GF-State and \$1.1 million PSEA by eliminating the reimbursement to local jurisdictions for these services.

- The Juvenile Rehabilitation Administration's Mission Creek Youth Camp is closed beginning July 1, 2002, saving \$1.5 million.
- \$1.4 million GF-State is saved through changing release provisions for juvenile offenders and developing additional community alternative options.

DSHS Developmental Disabilities

- A total of \$4.6 million in GF-State is saved by not hiring additional case managers and through reductions in Residential Habilitation Center (RHC) staffing.

DSHS Alcohol and Drug Programs

- A \$9.4 million reduction in state funds is achieved by eliminating the enhancement for persons gravely disabled, eliminating the Treatment Accountability for Safe Communities program (TASC) and other reductions to balance PSEA and VRDE accounts.

Department of Health

- Reduce funding by \$1.0 million GF-State to community AIDS Networks, a reduction of approximately 10 percent and eliminate grant funding for the fourteen neurodevelopmental centers for a cost reduction of \$1.0 million GF-State.

Department of Corrections

- \$715,000 in savings this biennium (\$40.5 million in 2003-05) are achieved through prospective adult sentencing changes, including reducing the seriousness level for certain drug offenses,

revising the scoring provisions for prior drug and burglary offenses, and expanding the allowable earned early release to 50 percent for non-violent, non-sex offenses.

- \$2.7 million is saved in the Department of Corrections' community supervision program by eliminating pre-sentence investigations and eliminating supervision for low-risk offenders and those on supervision for the collection of legal financial obligations only.
- A total of \$3.6 million is saved in the Department of Corrections by privatizing a work release facility, consolidating contracts for educational services, implementing food service efficiencies, and eliminating a mental health treatment evaluation contract.

Compensation -- \$117 Million Savings

- *Health Care Benefits -- \$45 million savings.* State, higher education and K-12 employees would be required to pay a higher share of their health benefit costs beginning in January 2003. Specifically, all employees would be required to pay at least 10 percent of their monthly health insurance premium; office co-pays would increase from \$10 to \$20 per visit; and, prescription drug costs would be reduced through the use of formulary restrictions and higher co-pays.
- *Retirement Contributions --- \$59 million savings.* Two changes are proposed to the actuarial funding processes for all PERS, SERS and TRS plans. \$21 million is saved from changing the actuarial funding method for all plans to the Projected Unit Credit method, and \$38 million is saved from applying a "full-funding lid" policy which results in no employer or employee contributions being made to retirement plans that have surplus assets. This would include Plans 2 and 3 for PERS, SERS and TRS.
- *Defer COLA to September 2001 -- \$13 million savings.* The second year state and higher education employee salary increase is deferred from July 1, 2002 until September 1, 2002 for a

savings of \$8.5 million (does not affect higher education employees covered by Initiative 732). Deferring vendor rate increases in the same manner saves an additional \$4.5 million.

I-695 Backfill -- \$72 Million Savings

Backfill assistance for the revenue losses associated with the passage of Initiative 695 is eliminated for all cities and counties effective July 1, 2002. Assistance for public health districts is continued for an additional six months, and then eliminated January 1, 2003.

Higher Education -- \$54 Million Savings

The Governor's supplemental budget proposes a five percent across-the-board reduction for the four-year schools and a three percent reduction for the community and technical colleges, effective July 1, 2002. In addition, the existing cap on tuition increases would be removed enabling each school to make up the budget reductions with increased tuition.

K-12 Education - \$29 Million Savings

- *K-12 Block Grant -- \$14.2 million savings.* The K-12 Block Grant program is eliminated in the 2002-03 school year for a savings of \$14.2 million.
- *Special K-12 Programs -- \$11.8 million savings.* Various K-12 grant programs are eliminated for a savings of \$11.8 million in the 2002-03 school year.
- *Educational Service Districts - \$2.5 million savings.* Educational service districts will receive a 50 percent budget reduction beginning in FY 2003, saving \$2.5 million.

Other -- \$59 Million Savings

- *State Library Closure -- \$6 million savings.* The Governor's budget eliminates funding for the state library effective October 1, 2002.
- *State Parks Cost Savings -- \$2.6 million savings.* Parks maintenance is reduced by \$0.5 million and the State Parks and Recreation Commission will make additional unspecified cuts.
- *Department of Ecology-- \$11 million savings.* The Department of Ecology's general fund appropriation is reduced by about \$11 million primarily through a fund shift for watershed planning grants and other reductions.
- *Fish and Wildlife -- \$7.3 million savings.* Close McAllister Creek, Naselle and Sol Duc hatcheries and reduce chum production statewide and make various administrative and program efficiencies.
- *Department of Community, Trade and Economic Development -- \$12 million savings.* Various programs in the Department of Community, Trade and Economic Development are reduced or eliminated.
- *Bond Retirement and Interest -- \$2 million.* General fund debt service expenses are reduced because of a decrease in bonds in the State Building Construction Account.

New Revenues -- \$166 Million

Gambling Tax Increase -- \$74 Million Increase

The Governor proposes a new state gambling tax of 10 percent on card rooms, pull-tabs and punchboards. Currently, there are only local gambling taxes, which are capped at 20 percent. Under this proposal the total tax on gambling cannot exceed 25 percent – 15 percent for locals and 10 percent

for the state. Local governments already levying at a rate greater than 15 percent would be allowed to continue to do so and the state rate in those jurisdictions would be reduced accordingly.

As part of the gambling tax proposal, the Governor includes two other changes applying to card rooms. First, the maximum allowable bet is increased from \$100 to \$300. Second, the number of card rooms is limited, as no additional card room licenses will be issued after July 1, 2002.

Additional Tax Auditors -- \$46 Million Increase

The Governor's budget adds staff within the Department of Revenue to conduct additional audits, tax discovery, delinquent account collections and a program of targeted taxpayer education (at least 50 FTEs). This will cost \$6.3 million GF-State but is expected to raise general fund revenues by \$46 million.

New Lottery Game -- \$25 Million Increase

Washington would join "The Big Game" multi-state lottery, generating revenue of \$24.9 million in the current biennium. Currently, there are seven other states involved in "The Big Game." Washington would become the only western state. "The Big Game" has two weekly drawings like Washington's current "Lotto," but as a multi-state games it has much larger jackpots on average. The additional revenues are the projected net increase in lottery revenue after accounting for the negative impact on current lottery revenues. Any reduction in the current lottery revenue below the \$102 million per year that is currently deposited into the education construction account will be replaced.

Use Tax on Shipping -- \$20 Million Increase

New legislation is proposed to make shipping charges included in the value of an item when calculating the use tax. Currently, Washington businesses pay sales tax on shipping charges when making

purchases from in-state suppliers but pay no tax on these charges if the supplier is located out of state.

Increased Liquor Taxes -- \$5 Million Increase

The Governor proposes an additional 30 cents per liter surcharge on spirits, effective March 1, 2002. The surcharge represents an increase in average price of about three percent per liter. The Liquor Control Board can impose the tax administratively, which will generate \$4.7 million in revenues during the remainder of the biennium. The estimate also assumes a slight reduction in demand.

Other – \$ 4 Million Decrease (net)

Several other measures are proposed which result in a net revenue decrease of \$4 million. Significant items include a business and occupation tax deduction for investment income, effective April 1, 2002 (\$4.2 million decrease); various fee increases in the Department of Fish and Wildlife (\$5.3 million); and permitting the Community Economic Revitalization Board Account to retain its own interest and some of the interest from the Public Works Trust Account (\$1.7 million decrease).

Money Transfers -- \$250 Million

“Pro Share” Revenue Transfer -- \$200 Million

The Governor’s budget anticipates the state will collect \$920 million of “Pro-Share” Medicaid intergovernmental transfers in 2001-03. The original biennial budget anticipated \$540 million of such revenues during the two-year budget period. The Governor’s 2002 Supplemental Budget proposes transferring an additional \$200 million of the \$380 million “Pro-Share” increase to the state general

fund. The balance of \$180 million would remain in the Health Services Account as a contingency reserve. Federal approval of additional Pro-Share revenues is uncertain.

Fund Balance Transfers -- \$50 Million

- \$21 million is transferred from the Tobacco Prevention and Control Account.
- \$12 million that is saved by reducing the 695 backfill for public health districts is transferred from the Health Services Account
- \$17 million of accumulated fund balances in other accounts are transferred to the general fund.

Reserves -- \$222 Million

The Governor's 2002 Supplemental Budget assumes the use of an additional \$222 million in reserves. This includes \$143 million from the unrestricted ending balance and \$79 million from the Emergency Reserve Fund. The Governor's Supplemental Budget leaves about \$304 million in the Emergency Reserve Fund and zero in the unrestricted ending balance.

New 2002 Supplemental Spending -- \$313 Million

K-12 Education

A total of **\$123 million** is added to the K-12 education budget. This amount includes \$97.5 million for enrollment and workload changes; \$11.8 million for increased levy equalization; \$14.5 million for the increased costs of implementing the Initiative 732 cost-of-living-adjustment in the 2002-03 school year.

Medical Assistance

Medical Assistance spending is projected to be 3.3 percent higher than originally budgeted requiring an additional **\$50 million** GF-State and \$41 million from the Health Services Account. The number of persons receiving medical coverage through Medicaid and through the state General Assistance and Medically Indigent programs is projected to be about 2.3 percent higher than previously forecasted. The rate at which the federal government matches state Medicaid expenditures will be 0.5 percent lower than previously budgeted. The balance of the increase is due to higher medical care costs per person served, particularly in the area of prescription drugs.

Department of Corrections

A total of **\$39 million** is added for maintenance level increases in the Department of Corrections, including, inmate and community supervision caseload growth (\$30.7 million), replacing reduced federal funding (\$3.2 million), increased health care inflation (\$3 million), and higher than projected costs for services provided by the Department of Information Services (\$1.6 million).

Developmental Disabilities

The first installment of the "ARC Lawsuit" is funded at **\$8.5 million** GF-State.

Fire Suppression

A total of **\$21 million** GF-State and \$9.3 million from other funds is provided to various state agencies for costs associated with the 2001 fire season.

Tort Liability

A **\$25 million** appropriation from the general fund to the Liability Account is made to maintain a sufficient reserve in the account that funds the Self Insurance Liability program. The original biennial budget had made this appropriation from the State Surplus Assets Reserve Account, which had been created in SB 6166 (LEOFF bill) that failed to pass the 2001 Legislature.

Economic Services

Mandatory caseload changes in the DSHS Economic Services program require an additional **\$15 million** GF-State appropriation. The increase is attributable to an increase the number of persons eligible for the General Assistance-Unemployable (GA-U) program.

Higher Education

A total of **\$12 million** is added in higher education. Of this amount, \$9 million is added for worker retraining at community and technical colleges to expand service by 1,500 full-time equivalent students. The budget also proposes to spend \$3.1 million more for state need grants.

Summary of Governor Locke's Proposed 2002 Supplemental Capital Budget

Background

The approximately \$900 million reduction in the general fund revenue forecast since June 2001 results in a biennial state debt limit that is significantly lower than was assumed by the underlying 2001-03 Capital Budget. The newly calculated debt limit based on the lower revenue forecast would force \$175 million of cuts from the current \$879 million borrowed in the 2001-03 Capital Budget.

New Financing Plan

A new bond bill is proposed by the Governor to address the constraints of the lower debt limit as well as providing additional debt capacity for other identified needs. The new plan dedicates \$25 million a year of lottery revenue from the Education Construction Account to pay the debt service on \$325 million in bonds. The bill amends RCW 39.42.060 (the statutory debt limit) to exempt this new debt from the debt limit calculation.

Governor's \$325 million 2002 Supplemental Capital Budget Proposal:

\$175 million to "Restart" the Existing Capital Budget

Funds \$175 million in programs that were originally funded within the original 2001-03 capital appropriation from the new "educational capital construction account."

\$100 million "Job Creation and Infrastructure Program"

Proposes a list of \$100 million in numerous minor works projects designed for economic stimulus by upgrading the condition of state buildings and facilities.

\$25 million Supplemental Budget

Funds \$25 million in new items primarily in corrections: including \$9.3 million to expand Coyote Ridge Corrections Center, \$6.2 million to replace lost federal funding for Monroe Corrections Center, \$3.4 million for emergency beds at Coyote Ridge and \$2.2 million for emergency beds at Airway Heights.

\$25 million to the Education Construction Account

Replaces the \$25 million that is now dedicated to debt service to keep the Education Construction Account "whole" in this biennium.